

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GRAYSON RURAL)	
ELECTRIC COOPERATIVE CORPORATION,)	
INC. FOR AN ADJUSTMENT TO ITS)	CASE NO. 94-418
RETAIL ELECTRIC POWER TARIFFS)	

O R D E R

On December 1, 1994, Grayson Rural Electric Cooperative Corporation, Inc. ("Grayson") filed an application to reduce its rates for retail electric service by \$774,650 annually effective January 1, 1995. The proposed rate reduction was designed to pass on to Grayson's customers a decrease in power costs proposed by Grayson's wholesale power supplier, East Kentucky Power Cooperative, Inc. ("East Kentucky").¹ The decrease in power costs proposed by East Kentucky became effective January 1, 1995, subject to further modification, and Grayson's proposed rates became effective simultaneously under the same condition.

Intervening in this matter was the Attorney General of the Commonwealth of Kentucky, by and through his Public Service Litigation Branch ("AG"). A public hearing was held April 25, 1995 at the Commission's offices in Frankfort, Kentucky.

On July 25, 1995, the Commission approved a rate decrease for East Kentucky which was greater than it had proposed.

¹ Case No. 94-336, The Application of East Kentucky Power Cooperative, Inc. for an Adjustment to Its Wholesale Power Tariffs.

Consequently, Grayson's power costs will decrease by an additional \$156,196 annually for a total decrease of \$930,846 annually. The manner in which this total decrease is passed on to Grayson's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

Grayson proposed to reduce its rates to reflect the full amount of East Kentucky's wholesale rate reduction. Grayson utilized an "equal reduction per Kwh" methodology which provides retail customers the same reduction per Kwh for all energy charges. This approach results in a straight pass-through of the East Kentucky decrease with no change to Grayson's existing rate design and no impact on its financial condition. Grayson was one of fourteen customers of East Kentucky utilizing this methodology while three others utilized the "equal percentage of revenue" methodology.

The AG recommends that the decrease be allocated on an equal percentage of revenue approach. The AG contends that this is the most equitable approach and its use here, in the absence of a cost-of-service study, is analogous to its use by the Commission in general rate cases when no cost-of-service studies are acceptable for revenue allocation purposes. The AG also questioned the continuation of the Electric Thermal Storage ("ETS") program and urged, if the program is continued, that retail ETS rates not be set below East Kentucky's wholesale off-peak energy rates.

In rebuttal, Grayson contended that both revenue allocation methodologies are reasonable and that one should not be favored over the other. Grayson also supported East Kentucky's ETS program and urged that the existing ETS rate structure be maintained.

Based on the evidence of record and being otherwise sufficiently advised, the Commission will approve the "equal reduction per Kwh" approach for allocating the decrease to retail rate classes for the following reasons. (1) The wholesale rate decrease from East Kentucky consists of decreased energy charges (per Kwh); therefore, an equal reduction per Kwh is a reasonable approach for the retail pass-through of the wholesale power cost decrease. (2) When a change in retail rates is caused by a change in only one expense item, purchased power, it is neither necessary nor appropriate to use a "percentage of revenue" allocation methodology. The Commission has at times utilized such a methodology where revenues are adjusted to reflect changes in multiple expenses. Here, however, revenues are being changed to reflect only one expense, purchased power. Under these circumstances, it is logical and reasonable that a change in cost be identified and reflected in the resulting change in retail rates.

The ETS rate issue is essentially moot due to the Commission's decision in East Kentucky's rate case to set the wholesale off-peak energy rates well below the retail ETS rate. The Commission, therefore, will approve the continuation of the existing ETS rate structure.

IT IS THEREFORE ORDERED that:


1. The rates in Appendix A, attached hereto and incorporated herein, are approved for service rendered on and after the date of this Order.

2. Within 20 days of the date of this Order, Grayson shall file with the Commission revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 26th day of July, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 94-418 DATED JULY 26, 1995.

The following rates and charges are prescribed for the customers in the area served by Grayson Rural Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE 1 DOMESTIC - FARM 7 HOME SERVICE

Rate:

Energy Charge \$.05728 Per KWH

SCHEDULE 2 COMMERCIAL AND SMALL POWER 50 KVA OR LESS, INCLUDING PUBLIC BUILDINGS, SCHOOLS, CHURCHES, ETC.

Rate:

Energy Charge \$.05728 Per KWH

SCHEDULE 3 OFF-PEAK MARKETING RATE THREE-PHASE FARM SERVICE

Rate:

On-Peak Rate
All KWH/Month \$.05728 Per KWH

Off-Peak Rate
All KWH/Month .03437 Per KWH

SCHEDULE 4 LARGE POWER SERVICE - SINGLE AND THREE- PHASE - 50-600 KVA(T)

Rate:

Energy Charge \$.03817 Per KWH

SCHEDULE 5
STREET LIGHTING SERVICE

Base Rate Per Light Per Year:

For the following monthly charges, the Cooperative will furnish, install and maintain the lighting fixtures and accessories, including hardware, control, lamps, overhead wiring, etc. and the energy required.

<u>Lamp Size</u>	<u>Mercury Vapor Lamps</u>
7,000 Lumens	\$ 5.95

SCHEDULE 6
OUTDOOR LIGHTING SERVICE - SECURITY LIGHTS

Availability

Available to consumers, other than towns and villages, for dusk-to-dawn outdoor lighting on existing overhead secondary circuits.

Rate Per Light Per Month:

7,000 Lumens Mercury Vapor Lamp	\$ 5.75
10,000 Lumens Mercury Vapor Lamp	7.62

SCHEDULE 7
ALL ELECTRIC SCHOOLS (A.E.S.)

Rate:

Energy Charge	\$.03880 Per KWH
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SCHEDULE 8
SEASONAL SERVICES - SERVICES ACTIVE LESS THAN
NINE (9) MONTHS OUT OF A YEAR

Rate:

Energy Charge	\$.07578 Per KWH
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SCHEDULE 12(A)
LARGE INDUSTRIAL LLE
1,000 - 4,999 KVA

Rate:

Energy Charge	\$.02825 Per KWH
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SCHEDULE 12(B)
LARGE INDUSTRIAL LLE
5,000 - 9,999 KVA

Rate:

Energy Charge

\$.02325 Per KWH

SCHEDULE 12(C)
LARGE INDUSTRIAL LLE
10,000 AND OVER

Rate:

Energy Charge

\$.02225 Per KWH

SCHEDULE 13(A)
LARGE INDUSTRIAL HLE
1,000 - 4,999 KVA

Rate:

Energy Charge

\$.02825 Per KWH

SCHEDULE 13(B)
LARGE INDUSTRIAL HLE
5,000 - 9,999 KVA

Rate:

Energy Charge

\$.02325 Per KWH

SCHEDULE 13(C)
LARGE INDUSTRIAL HLE
10,000 AND OVER

Rate:

Energy Charge

\$.02225 Per KWH

SCHEDULE 14(A)
LARGE INDUSTRIAL MLE
1,000 - 4,999 KVA

Rate:

Energy Charge

\$.02825 Per KWH

SCHEDULE 14 (B)
LARGE INDUSTRIAL MLE
5,000 - 9,999 KVA

Rate:

Energy Charge

\$.02325 Per KWH

SCHEDULE 14 (C)
LARGE INDUSTRIAL MLE
10,000 AND OVER

Rate:

Energy Charge

\$.02225 Per KWH